CORPORATION TAX

A change of date can reduce your company's tax bill

Varying profits can play havoc with cash flow, especially when it's time to pay corporation tax. Changing your company's accounting date can help, but when are you allowed to do it?

Company law

When you form a company Companies House automatically sets the date to which the first accounts must be drawn up. Specifically, it's one year from the end of the month in which the company was registered, e.g. if the company was formed on 12 March 2017, the first accounting period will run to 31 March 2018. However, this doesn't always fit in with the tax rules.

Tax rules

Unlike an unincorporated business, the maximum period on which tax is calculated for a company is twelve months. But that doesn't mean to say that a company's accounting period always has to be exactly a year. Subject to certain conditions, you can shorten it as much as you want. However, unless you can meet tougher conditions you can only extend an accounting date once every five years.

Tip. Varying the length of an accounting period can push back the corporation tax (CT) payment date. This might be particularly useful for new companies which get off to a slow start.

Example. Acom Ltd's profits for its first year to 31 March 2017 are £100,000, but interim accounts for the first nine months show a profit of just £10,000. In the year to 31 March 2018 it's profits are £180,000. If Acom sticks with the original accounting date it will have to pay tax on £100,000 by 1 January 2018.

However, if it shortens its first accounting period to end on 31 December 2016, its first CT bill will be based on profits of just £10,000, although it will be payable three months earlier, i.e. 1 October 2017. In effect, the CT due on the higher profit won't be payable until 1 October 2018. That gives Acom a useful cash-flow advantage.

Tax saving

To put the position into sharper focus the tables below show Acom's CT payments with and without a change of accounting date. We've assumed that profit for the second accounting period averages £15,000 per month.

Without a change of accounting date

Year to	CT due date	CT payable
31 March 2017	1 Jan 2018	£20,000

31 March 2018	1 Jan 2019	£34,200

With a change of accounting date

Period/Year to	CT due date	CT payable
31 December 2016	1 Oct 2017	£2,000
31 December 2017	1 Oct 2018	£42,750

Tip 1. Ultimately, a company will pay CT on the same amount of profits no matter how many times it shortens or lengthens its accounting periods. The advantage is improved cash flow.

Tip 2. After a company's first trading period the rule of thumb is that where profit is falling you should extend the accounting period, and vice versa where profit is rising.

Procedure. Under company law there's a set procedure for changing accounting dates. However, HMRC doesn't need to be told until you submit your company's CT return.